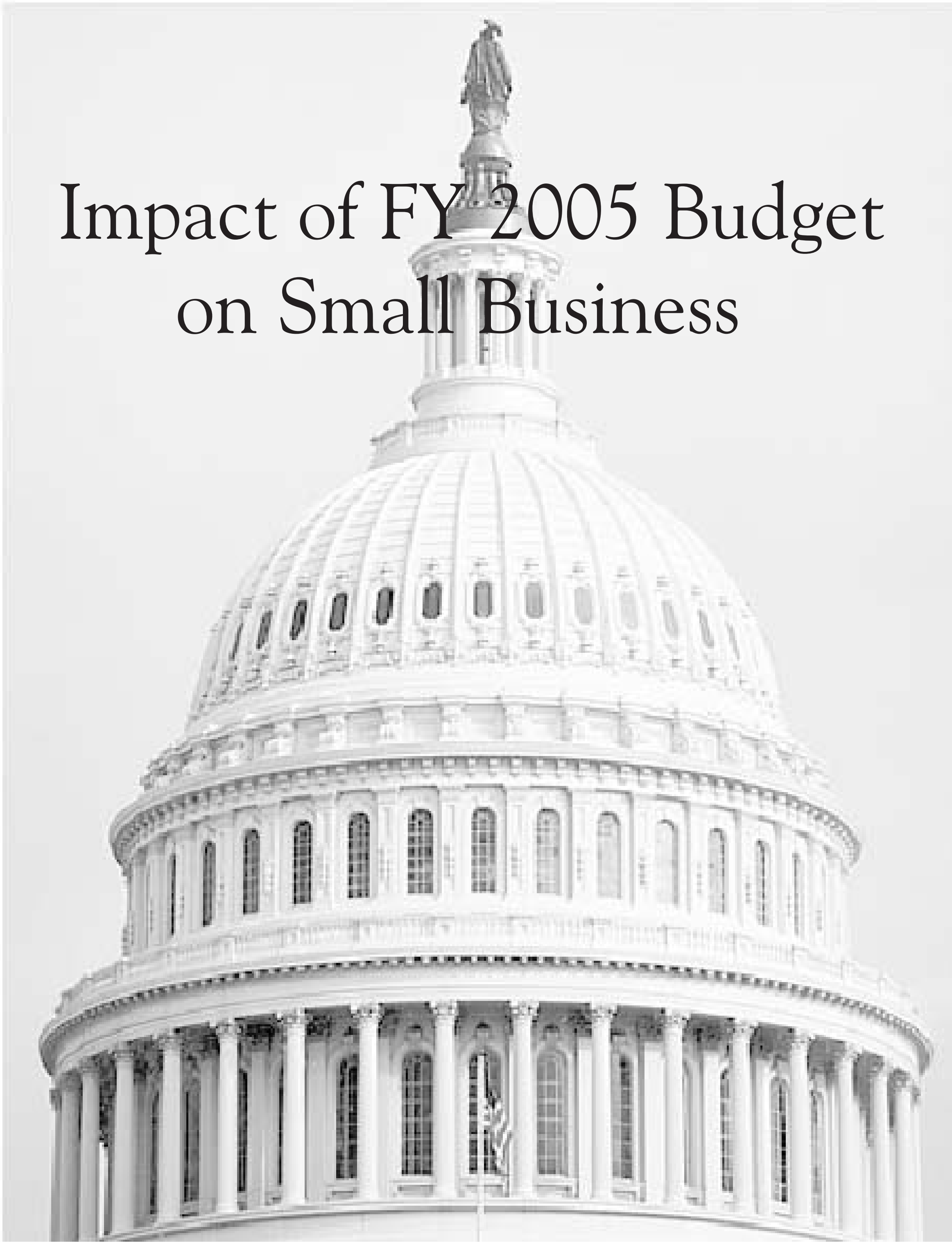
Impact of FY 2005 Budget on Small Business



A report prepared by

House Small Business Committee
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INTRODUCTION

On February 2, 2004, the Bush administration released its budget request for fiscal year 2005. The $2.4 trillion budget establishes a fiscal policy aimed at leading the nation to renewed economic strength and stability. This budget comes at a critical time when American businesses are struggling to create enough new jobs to prevent the economy from ceding the limited gains it has made over the past year. Since President Bush took office, millions of private sector jobs have been lost, including 2.8 million in the manufacturing sector, and less than 150,000 new jobs were created during the last two months, well below the level needed to revive the labor market and sustain a long-term recovery.

Unfortunately, the administration's tax policies have also contributed greatly to a budget deficit that is estimated to approach $500 billion during 2004. The budget deficit, combined with a $500 billion trade deficit, shaky consumer confidence, and a cooling housing market have resulted in economic conditions that are less than optimal for sustainable growth. Rising interest rates may not be far off as well, as the weak dollar exerts upward pressure on domestic prices and the mounting budget deficit drives up the borrowing costs for the private sector. As a result, businesses across the country will be hard pressed to add new jobs, hindering the ability of our economy to make a full recovery.

The budget proposal represents the culmination of the administration's economic philosophy, again relying heavily on tax incentives to stimulate the economy. To date, these tax cuts have had limited effect, but instead have turned an estimated $230 billion dollar surplus that existed when the current administration took office into a record-setting deficit. In an attempt to stem the growth of the deficit without scaling back the previously enacted tax cuts, the Bush administration's budget proposes significant reductions in domestic spending.

While not a new approach to reign in deficits, the approach and focus of these reductions are open for analysis and critique as they occur in programs that have often provided a means to generate economic development, new jobs, and tax revenue. To this end, the report completed by the Democratic staff of the House Small Business Committee looks at the impact of this budget on one specific sector – small businesses – and alludes to the downstream effect that these reductions will have on the U.S. economy in general.

The report reviews programs that predominantly serve the small business community as well as the administration's tax proposals for FY 2005. In compiling the report, Democratic staff compared budget requests, appropriation amounts, and authorization levels from previous fiscal years to the administration's FY 2005 budget request for over 60 programs that serve small businesses. The report also examines the FY 2005 budget tax proposals and the impact they will have on these businesses and reviews the relative cost of these provisions compared to the actual benefit going to small firms. It also examines a number of tax measures aimed at specifically helping small businesses that were excluded from the budget.

In its most basic sense, the report suggests the federal government is abandoning policies and programs that rely on small business innovation, industriousness, and assiduousness to spur growth and create new jobs. Far from an incremental reduction in funding levels, the FY 2005 budget represents a dramatic, wholesale withdrawal of federal resources from the small business sector. Among the identified programs, there were 36 adversely affected – 22 programs are slated for termination and another 14 programs will be left with reduced funding. Overall, the average reduction in federal program funding is above 70 percent.

As the economy struggles to recover and investor appetite for risk remains modest, economic policies must incorporate programs and incentives that encourage innovation and the development of new ideas. Such churning of ideas will ultimately give birth to the next great generation of American businesses – and the jobs that come with them. Without policies in place that empower entrepreneurs, the recent signs of resurgence will not reveal a renaissance, but rather a return to even higher unemployment and economic stagnation.

Perhaps the single most important sector for ensuring sustained economic growth and job creation is small business. The 23 million small firms in the U.S. comprise the engine of the American economy, generating three-fourths of all new jobs, representing 99 percent of all employers, and creating more than half of our GDP. In the past, during times of economic downturns and recessions, it has been our entrepreneurs who launch start-ups, spark business investment, and provide job opportunities for the ranks of the unemployed or underemployed.

For small businesses to continue as the foundation of the U.S. economy, they require an environment that is conducive for growth. Many of the programs in this report have compensated for the market failures in such critical areas as manufacturing, technology, entrepreneurial development, worker training, and business financing. The network of federal government programs in these areas has enabled the development of a strong and vibrant small business sector, which is essential if the economy is to enjoy a real economic recovery. To be effective, however, these programs require the support of the Bush administration because the tax measures are simply not providing the stimulus.

Unfortunately, as the following report details, small businesses are not the focus of the administration's economic policy. Instead, the fundamental role entrepreneurs play in spurring growth, creating new jobs, and developing wealth is largely ignored. Consequently, by not adequately funding the programs that support and further develop small businesses, the United States will be unable to build on its recent advances and risks relinquishing the hard-fought gains it has realized during the last year.

Program Descriptions

Access to Capital

7(a) Loan Program (U.S. Small Business Administration)

A major barrier to small business start-up and growth is access to affordable capital. In fact, the way in which many entrepreneurs turn great ideas into business ventures is through credit cards, which often carry prohibitively high interest rates. Filling this financing gap is the U.S. Small Business Administration's 7(a) loan program. Through public-private partnerships that share the lending risk, the SBA lending programs allow small businesses to tap into the financing they need for success. In these programs last year, more than $20 billion in capital was provided to our nation's entrepreneurs, accounting for 40 percent of all long-term small business lending. Small business owners across the country rely on the 7(a) loan program as a source of financing so they can launch and expand their operations. At a time when the economy is struggling to create jobs, the 7(a) loan program can give businesses a steady source of reliable capital, critical to making future plans for growth and bringing on new staff. In Bush's budget proposal, the 7(a) loan program witnesses a cut of $94 million, and a hike in fees for small businesses that use the SBA's most popular lending program. Given this administration's weak job creation record, and the role small business financing plays in helping spur employment opportunities, the demise of the 7(a) loan program and its rising fees for entrepreneurs will certainly fail to put our nation back to work.

Microloan Program (U.S. Small Business Administration)

It is during times of economic recessions or downturns that many of the unemployed try their hand at running a business. Many entrepreneurs only need a very small loan to get started, but often find it difficult to get a conventional loan due to inexperience with credit, lack of assets or the need for ongoing technical assistance. Through the SBA's Microloan program entrepreneurs are able to secure loans up to $35,000, with $10,500 as the average amount. Last year, the program provided $26.5 million in loans and $15 million in training and education assistance to U.S. microenterprises. A recent analysis of the microenterprise industry found that return on investment in microenterprise development is over $2 for every $1 invested. In addition, microbusinesses have very favorable survival rates when compared to other small businesses, and are a way out of poverty for low-income microentrepreneurs. Although the Microloan program is key to the development and strengthening of America's microbusinesses, in its FY 2005 budget proposal, the Bush administration proposed to terminate it. By cutting this program, the administration will limit the potential for many low-income individuals to become self-sufficient, and prevent our nation from utilizing a successful economic development tool.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM (CDFI) (U.S. DEPARTMENT OF THE TREASURY)

Many times businesses in the communities that most need credit are unable to get it. Ignored or abandoned by conventional financial institutions, many of them lack economic development opportunities and are forced into decline. The Community Development Financial Institutions (CDFI) program has awarded more than $534 million to community development organizations and financial institutions for the expansion of credit availability, investment capital, and financial services in distressed urban and rural communities. These CDFIs provide a wide range of financial products and services, including commercial loans and investments to start-up or expand small businesses and financial services in low-income communities. In addition, these institutions provide services to help ensure that credit is used effectively, including technical assistance to small businesses and credit counseling to consumers. CDFIs have channeled capital to countless enterprises such as grocery stores, construction contractors and daycare providers, creating jobs and improving the standard of living in underserved communities. Through their community development loan funds, CDFIs lend to help businesses expand while community development venture capital funds provide equity and management expertise to small, minority-owned businesses that promise rapid growth. The continual budget cuts to CDFI funding under this administration will seriously reduce the ability of underserved communities to revitalize their local economies by providing jobs and entrepreneurial opportunities for the residents who live there.

NEW MARKETS VENTURE CAPITAL PROGRAM (NMVC) (U.S. SMALL BUSINESS ADMINISTRATION)

During the boom of the 1990s, many areas of our nation enjoyed a period of economic expansion, but there were also minority and low-income communities that failed to reap the benefits. In an attempt to bring venture capital into the very communities that were passed over, the New Markets Venture Capital (NMVC) program was created. This program sought to spur economic development, job growth, and neighborhood revitalization in America's forgotten communities. As the first of its kind, the NMVC program sought to team venture capital and technical assistance to help small businesses in low- and moderate-income areas. Several inner city and rural communities were targeted. Since its inception, the NMVC program has made $149 million available to low-income areas in some fifteen states. Consistent with its previous budget request, the administration does not request any funding for this program in FY 2005. As a result, SBA will be unable to bring new NMVC companies into the program, limiting the availability of equity financing to entrepreneurs located in distressed urban and rural areas at a time when the economy is still struggling.

PRIME (PROGRAM FOR INVESTMENT IN MICROENTREPRENEURS) (U.S. SMALL BUSINESS ADMINISTRATION)

There are an estimated 2 million businesses in the United States that are operated by low-income and very low-income entrepreneurs, yet many studies show just a fraction of them receive any kind of business assistance. The main focus of the SBA's Program for Investment in Microentrepreneurs (PRIME) is to provide this assistance to low-income entrepreneurs who may not have the education or training to successfully manage their business. PRIME was created to help the smallest of small businesses – those with five or less employees – and is meant to provide guidance to these owners so they can better overcome the barriers that confront them in the early stages of business development. It is through initiatives like PRIME that the SBA is able to offer management and technical assistance to more than one million small business owners each year. In providing these microentrepreneurs with technical assistance early on, the rates of success are higher as well as their overall profitability. All across the U.S. – from California and Arizona to New York and Boston – there are community-based organizations that provide training and technical assistance through PRIME. Even though this program is unique, the Bush administration has not requested funding for it in the FY 2005 budget. Since PRIME fills such an important gap in technical assistance for low-income entrepreneurs, without it, many will be unable to realize their dreams of business ownership, failing to help foster economic development and job opportunities in the surrounding communities.

ENTREPRENEURIAL ASSISTANCE

BUSINESS INFORMATION CENTERS (BICS) (U.S. SMALL BUSINESS ADMINISTRATION)

The SBA's Business Information Centers (BICs) provide a one-stop location where small businesses can receive assistance and advice through the latest computer technology, hardware and software, an extensive small business reference library, and current management videotapes. BICs provide information, education and training designed to help entrepreneurs start, operate and grow their businesses. Although most are located in Empowerment Zones (EZs) as stand-alone centers, BICs were the core element of the former One Stop Capital Shops (OSCSs). Generally, BICs operate under the direction of local SBA district offices, and they are in all 50 states. Private-sector cosponsors, SCORE volunteers, and representatives from local Small Business Development Centers (SBDCs), chambers of commerce and other educational- or business-related organizations help in the operation of the centers and in assisting clients. Many of the individuals who visit BICs are self-employed and lack basic business skills, but have the initiative to start a company. BICs also serve to point people in the right direction for those seeking start up capital, business plan assistance, and advice on meeting regulatory and tax requirements. In the Bush administration's FY 2005 budget, funding for BICs has been terminated, just as the OSCSs were in last year's budget request, leaving far fewer places disadvantaged entrepreneurs can turn to start or expand their businesses in poverty-stricken rural and urban areas of the United States.

OCCUPATIONAL AND EMPLOYMENT INFORMATION STATE GRANTS (U.S. DEPARTMENT OF EDUCATION)

Even with the current weak state of employment in this country, an increasingly important concern for small businesses is recruiting and training workers. The U.S. Department of Education's Occupational and Employment Information State Grant program is targeted at providing the labor force of the 21st century with career guidance and counseling. These grants, which are awarded to local entities, including community colleges and universities, promote improved career and education decisions by individuals. Educational institutions that receive Occupational and Employment Information State Grants use their funds to create matchmaking networks of graduating students and potential employers – ultimately providing small businesses with steady access to a skilled employee pool. Working with small businesses to identify their employee needs, grant recipients prepare students for available jobs, reducing the cost and time of small businesses in employee searches, providing them with a better skilled work force, and increasing employee retention by fostering career-oriented individuals. Like previous budgets, the FY 2005 Bush budget overlooks this critical program and once again requests no funding for it. Failing to provide such services to students diminishes the ability of next generation workers to be employed by small businesses and possibly become future entrepreneurs.

OFFICE OF REGULATORY ANALYSIS (U.S. GENERAL ACCOUNTING OFFICE)

An obstacle to small business success is the overwhelming array of federal regulations they face, which costs them an estimated $7,000 per employee per year. In 2000, the Truth in Regulatory Act established an Office of Regulatory Analysis within the U.S. General Accounting Office (GAO) for the purpose of reporting on "economically significant rules" promulgated by federal agencies. This includes any federal agency regulation that has an annual effect on the economy of $100 million or more or any adverse effect on productivity, competition, jobs, the environment, local governments or communities. Overall, the office would increase the transparency of regulatory decisions and increase congressional oversight to ensure that rules are effective yet fair to all sectors of the U.S. economy, including small businesses. This office has particular importance today as the record for federal regulations is at an all time high under the Bush administration. The Bush FY 2005 budget, as in previous years, fails to request any funding for this initiative. Without this office to increase agency accountability in the regulatory process, small businesses will continue to be weighed down by the high costs of complying with federal rules.

ONE-STOP CAREER CENTERS (U.S. DEPARTMENT OF LABOR)

Small businesses often lack the human resource departments of their larger counterparts, causing them to face unique obstacles when recruiting and interviewing new employees. Through One-Stop Career Centers, small business employers are provided with assistance ranging from a job announcement's initial placement to a candidate's final interview. These local centers help small firms craft their job descriptions so they are targeted to attract the right type of employees, and provide interview space for those small firms that lack the appropriate office facilities. They also offer phone, fax and Internet services for start-up entrepreneurs who do not yet have office space. The One-Stop Career Centers also provide job seekers with an array of services that include skill upgrading, on-the-job training, occupational skills training, entrepreneurial training, job readiness training, and adult education and literacy activities. As small business owners face formidable challenges in finding money to train employees, which can cost from $250 an hour to a staggering $10,000 a day, these centers fulfill an important staffing need by helping them secure a more qualified and skilled workforce. The Bush administration has consistently flat funded these centers, resulting in a $12 million cut this year when compared to 2003. Given the critical role One-Stop Career Centers play in matching small employers with trained employees, the lack of commitment to this program will only cause additional recruitment and training problems for our nation's small firms.

PROCUREMENT CENTER REPRESENTATIVES PROGRAM (PCRS) (U.S. SMALL BUSINESS ADMINISTRATION)

The largest selling ground for small businesses is right in their own backyard – the federal government, which was an estimated $235 billion marketplace in 2002. But year after year, federal agencies fail to meet their small business goals, shutting out our entrepreneurs, even though they can provide goods and services at competitive prices. The U.S. Small Business Administration's (SBA) Procurement Center Representatives (PCRs) program focuses on increasing the small business share of federal contracts. PCRs are also the first line of defense against contract consolidation or bundling, ensuring that the federal marketplace promotes a conducive and fair small business environment. Currently, there are fewer than 40 PCRs across the nation – not even one per state. The Bush administration has consistently called for the enforcement of regulations designed to increase small business contracting awards, yet it reduces the funding for PCRs in its FY 2005 budget request. Given that small businesses have lost billions of dollars in contracting opportunities in recent years due to the failure of federal agencies to meet their small business goals, the role of the PCR and building their ranks is more important than ever. If PCRs are consistently underfunded, which is what has occurred under President Bush, then small business will continue to be shut out of the federal marketplace, preventing their ability to sell to the U.S. government, expand, and provide employment opportunities in our local communities.

PROJECTS WITH INDUSTRY PROGRAM (PWI) (U.S. DEPARTMENT OF EDUCATION)
In this country today, there are approximately 54 million Americans with disabilities. The unemployment rate for this sector hovers at a high 70 percent, a third of them live in a household with an annual income of $15,000 or less, and fewer than 10 percent own a home. The U.S. Department of Education's Projects with Industry (PWI) program is focused on creating and expanding job opportunities in the labor market to those individuals with disabilities by encouraging the involvement of business and industry in the rehabilitation process. PWI works with businesses of all sizes, including small firms that are the backbone of local economies, to identify jobs and careers while giving advice on job training and skills. Through this program, the hope is to allow individuals with disabilities to obtain meaningful employment, higher wages, and a better rate of job retention in a wide variety of small businesses and industries. A Department of Education study found that the change in earnings of individuals placed in the labor environment through PWI increased their earnings by an average of over $200 per week. Although the PWI has been funded at almost $22 million in FY 2004, the Bush administration once again this year has requested no funding for it. Given that PWI is the primary federal vehicle for promoting greater participation of businesses in hiring individuals with disabilities, the proposed termination of it by this administration will shrink the labor pool and also harm the job prospects of the disabled.

U.S. EXPORT ASSISTANCE CENTERS (USEACS) (U.S. DEPARTMENT OF COMMERCE)
Participating in international trade is not limited to large U.S. companies. It is small businesses in this country that account for the majority of exporters as expansion efforts include selling their products and services overseas. In an effort to help small businesses navigate the international market, U.S. Export Assistance Centers (USEACs) provide small companies with a one-stop shop to meet all their exporting needs. USEACs provide clients with advice from the Small Business Administration (SBA), Department of Commerce, the U.S. Agency of International Development (USAID) and the Export-Import Bank (Ex-Im Bank). Located in 17 cities nationwide, USEACs provide customized export counseling, trade financial assistance, and technology training for a seamless transition to executing overseas transactions. Through this partnership, small businesses in the U.S. are able to find the help they need to better compete in the global marketplace. As the primary gateway to export assistance for American small businesses, these centers last year counseled an estimated 4,300 small business exports and conducted almost 60 Export Trade Assistance Partnership programs. Although USEACs can mean the difference between staying local and going global for many small businesses, the Bush administration has requested no funding for these centers in its budget submission for FY 05. The end result will be a dearth of information for small businesses that want to export abroad, a lack of a single point of entry for export assistance, and the potential failure of many small businesses to expand into international markets.

ECONOMIC DEVELOPMENT

BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE (BEDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

In the U.S. today, the Environmental Protection Agency (EPA) estimates there are between 500,000 to one million brownfields that are draining the life out of our communities. By definition, brownfields are properties in which redevelopment, expansion or reuse may be complicated by the occurrence of pollutants. Brownfields can be found in all parts of the country, from Maine to California. The goal of the U.S. Department of Housing and Urban Development's Brownfields Economic Development Initiative (BEDI) is to stimulate economic growth by helping cities to clean-up and redevelop brownfields sites. This helps to remove environmental hazards from communities, while revitalizing them through job creation and the reintegration of productive property. Small businesses have a clear role to play in helping to turn brownfields into safe, vibrant commercial areas, bringing jobs to distressed areas that need them most. Through remediation of a brownfields site, local small businesses can then create commercial space, moving their offices and staffing it with new employees if they are able to expand. In Bush's most recent budget request, this program was scaled back, even after being funded in 2004 at $25 million. In failing to fund the BEDI, many small firms will be unable to participate in economic development and job promotion, while brownfields sites across the country will continue to tarnish the landscapes of our communities.

BUSINESSLINC (U.S. SMALL BUSINESS ADMINISTRATION)

The SBA's BusinessLINC (Learning, Information, Networking, and Collaboration) program was designed to promote business-to-business relationships that build the competitive strengths of small businesses, especially those located in economically disadvantaged rural and urban areas. Although small businesses generate the majority of new jobs in this country, little attention has been given to how cultivating business relationships with larger firms can help small companies to better compete and grow. Through these business-to-business relationships, which include information-sharing, networking, and mentoring, small companies show higher rates of success. Not only do small businesses reap the benefits from these relationships by obtaining technical advice, leveraging core strengths, and increasing marketplace credibility, but large firms also are able to reach new markets, create stronger ties with the community, and partner with agile companies. By giving these large firms an incentive to partner with already established local small businesses in distressed areas, BusinessLINC serves as a key component in economic development and job creation. The failure of this administration to request funding for this valuable program in every budget threatens its future and leaves many small firms without the business expertise and network to revitalize low-income communities across the country.

COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) PROGRAM (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

As one of the largest federal grant programs, the impact of Community Development Block Grant (CDBG) funded projects can be seen in the housing, business, and public facilities of low- and moderate-income communities throughout the nation. For the past 25 years, cities and counties have used HUD's CDBG program to rebuild and revitalize communities through the flexible funding of important local projects. The CDBG program has become an increasingly important catalyst for economic development activities that expand small business opportunities in low-income neighborhoods. CDBG funds can be used for the development and operation of business incubators, which can be very effective in promoting and developing small businesses – the leading source of local jobs. These funds are also used to assist for-profit businesses through special economic development activities, including microenterprise loans to low-income entrepreneurs, assembling land to attract new industry, or business expansion loans to help retain existing small businesses that employ low-income workers. In fact, CDBG funds have been used to operate revolving loan programs to help small businesses start up, expand and relocate in U.S. cities. Officials claim that without the CDBG funds, these cities would not have been able to provide such financing to small businesses or attract the participation of area banks. The $25 million cut in funding for CDBG in Bush's latest budget will have a devastating effect on expanding economic opportunities and both creating and retaining jobs by small businesses for residents in low-income areas.

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA) (U.S. DEPARTMENT OF COMMERCE)

Small businesses have the power to breathe new life into our most vulnerable communities. The Economic Development Administration (EDA) at the U.S. Department of Commerce stimulates industrial and commercial growth by generating jobs and retaining existing jobs in economically-distressed areas. The basic guiding principle at EDA is that distressed communities must be empowered to implement their own economic development strategies. EDA helps such communities address challenges relating to chronic economic distress and severe economic dislocations due to closure of federal facilities, natural disasters, or rapidly changing trade patterns. These investments support a variety of specific economic development strategies including business incubators, redevelopment of Brownfields sites, and business/industrial development. EDA provides small business grants to help distressed communities attract new industry, encourage business expansion, diversify local economies, and generate long-term private jobs. Since 1965, EDA has invested more than $16 billion in grants, and has generated more than $36 billion in private investment. It is through the launching of successful initiatives, the creation of jobs, and the expansion of local economies when the demand decreases for government expenditures. The most recent cut to EDA in the Bush budget proposal will significantly reduce its impact and lessens its ability to capitalize on the rich resources small businesses can offer for reviving communities in need.

ECONOMIC DEVELOPMENT INITIATIVE (EDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

A way to help our low and moderate-income communities is to provide them with a steady infusion of capital for economic development purposes. The Economic Development Initiative (EDI) provides grants to local governments that can be used to enhance both the soundness of loans guaranteed through the Department of Housing and Urban Development's Section 108 Loan Program and the feasibility of the large economic development and revitalization projects they finance. Since local governments pledge against potential repayment shortfalls with these loans, the EDI program offers communities a way to decrease their risk. The goal of EDI is to provide tax breaks and incentives to attract private investment and create jobs. Increasing access to capital for entrepreneurs and small businesses has emerged as key components of the job growth and investment strategy powered by the EDI grant program. It does this by enabling communities to obtain long-term, low-interest HUD loans for up to ten times the amount of their EDI grants for a wide range of economic and community development projects. Since 1994, HUD has awarded $500 million in EDI grants and has committed more than $4 billion in guaranteed loans, generating an estimated 300,000 jobs. In the Bush FY 2005 budget, the EDI program has been zeroed out. This will severely impact the ability of small businesses across the country to access capital by hindering job growth and community initiatives relating to economic development.

EMPOWERMENT ZONES (EZS) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

Opportunities for entrepreneurial initiatives, small business expansion, and job training which offer upward mobility are critical to providing economic opportunity and direction for underserved areas and distressed neighborhoods. Through the creation of Empowerment Zones (EZs) in this nation's most distressed urban communities, economic development is encouraged through public-private partnerships. The new urban EZs receive regulatory relief and tax breaks to help local businesses provide jobs and promote community revitalization. EZs encourage and assist small business development through tax incentives, mentoring programs which pair small businesses with large ones, and crucial funding to provide individual businesses with ideas to help them with their development. The creation of jobs by small businesses in EZ communities provides the foundation for residents to become economically self-sufficient while spurring development. EZ employers are even entitled to a 20 percent credit on the first $15,000 of wages paid to certain qualified zone employees. Small businesses in EZs benefit from employment credits, increased IRC Section 179 deductions, rollover of gain from the sale of EZ assets, increased exclusion of gain from qualified small business stock and tax-exempt bond financing. With the economy in a slump, and low-income communities being the hardest hit, zeroing out EZs will negate years of work in helping underserved areas of this country to survive.

MANUFACTURING EXTENSION PROGRAM (MEP) (U.S. DEPARTMENT OF COMMERCE)
Since the start of 2001, more than 2.8 million manufacturing jobs have been lost, plunging this sector of the American economy into crisis. The Manufacturing Extension Program (MEP) at the U.S. Department of Commerce is a network of not-for-profit centers in over 400 locations nationwide, which helps sustain entrepreneurial development by providing small and medium-sized manufacturers with technical and business solutions. MEP aids these businesses with process improvement, quality management systems, business management systems, human resource development, market development, materials engineering, plant layout, product development, energy audits, environmental studies, financial planning and electronic commerce. Operating in all 50 states and Puerto Rico, MEP has made it possible for approximately 150,000 of our nation's smallest firms to tap into the expertise of knowledgeable manufacturing and business specialists all over the United States. It has been named as one of the 100 best resources for small businesses, and according to a recent survey of MEP clients served from October 2002 through September 2003, they created or retained more than 35,000 jobs, realized $681 million in cost savings, and served 18,750 clients in 2002 as a result of MEP services. Given the loss of manufacturing jobs, the MEP is needed now more than ever, yet the funding requested by President Bush in FY 2005 is more than $66 million less than the program's funding level in 2003. Without the full operation of these centers, small manufacturers will continue to experience dipping revenues, additional lay offs, and the closings of facilities.

LIVING CITIES: THE NATIONAL COMMUNITY DEVELOPMENT INITIATIVE (NCDI) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)
A new driving force in this country's economy – and the anchor of many communities – is minority enterprise. Many times, minority-owned companies face obstacles to finding the capital they need to start-up and grow. The National Community Development Initiative (NCDI) provides millions in grants and loans – with some of these funds used to create a line of equity for minority-owned firms – to nonprofit organizations and community development corporations. The Community Development Corporations (CDCs) that make up the NCDI address pressing business issues including job creation, training, and placement needs within their communities. CDCs borrow money, invest it in the physical and social infrastructure of their neighborhoods, and repay their debts. They act as competent local entrepreneurs that help residents gain a decisive voice and economic stake in their communities. Given the request by this administration for just $25 million, approximately $5 million less than the funding level for the program in 2004, local CDCs will be unable to foster small business growth and development, which in turn spurs job creation and economic stability.

COMMUNITY DEVELOPMENT LOAN GUARANTEES (SECTION 108) (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

One path to economic revitalization is through the infusion of capital into businesses that anchor local communities. The Community Development Loan Guarantees (Section 108) were designed in the late 1970s to fund community renewal projects that can transform entire neighborhoods. As a federally-funded initiative, these loans help to inspire private economic activity, providing the incentive these companies need to invest in distressed areas of the country. The Section 108 Loan program can be utilized by entities for a number of economic development activities that emphasize small business growth and the cultivation of local entrepreneurship. These projects include microenterprise loans to low-income individuals, business loans to help small firms that employ low-income workers expand, or securing land to attract industry. Cities have used Section 108 funds to provide gap financing as a credit enhancement for local businesses to start-up and grow. Other projects have included the construction of a "public market" with small local businesses that use the facility, provide countless job opportunities and reduce blight. By terminating the Section 108 program, the Bush budget proposal will decrease the ability of entrepreneurs and small businesses to help their areas to rebound and create jobs for local residents.

RURAL INITIATIVES

DELTA REGIONAL AUTHORITY (DRA) (U.S. DEPARTMENT OF AGRICULTURE)

The Delta Regional Authority (DRA) is a federal-state partnership serving a 240-county/parish area throughout Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri and Tennessee. Based on models including the Marshall Plan and the Appalachian Regional Commission (ARC), the DRA provides states and non-profit organizations with workforce and business development grants, helping low-income communities access critical job training and entrepreneurship services. The DRA's business development services focus on fostering entrepreneurship and small business start-ups. The DRA's long-term goals are to decrease levels of unemployment and underemployment by providing the necessary infrastructure to support economic growth. For FY 2003/2004, the DRA awarded nearly $6.16 million in grants to the states within the Delta region. This program has witnessed a substantial decline in federal funding, with the Bush administration requesting a mere $2 million in FY 2005. With cuts to the small business and job training services offered by the DRA, these states would lack the meaningful projects undertaken by regional planning commissions, local governments, non-profit organizations, and universities to address chronic problems, which have led to depressed economic conditions and higher poverty rates for many residents.

MIGRANT AND SEASONAL FARMWORKER PROGRAMS (U.S. DEPARTMENT OF LABOR)

Across the country, rural communities and the small businesses that anchor them depend on seasonal and migrant farmworkers to fulfill their labor needs. The U.S. Department of Labor's Migrant and Seasonal Farmworker programs provide job training and employment assistance for these workers and their families, many who experience chronic unemployment or underemployment. They also offer an opportunity to those workers who have the drive to move towards self-sufficiency. In addition, these programs are aimed to create entrepreneurial and microenterprise development opportunities for farmworkers, giving them the training they need to actually start a small business. While this initiative was funded in 2004 at $77 million, the Bush administration has requested no funding in its 2005 budget request. Given the program's termination, many small businesses in rural areas of the U.S. and the farmworkers that support them will suffer, leaving these communities searching to retain jobs and expand economic growth.

NORTHERN GREAT PLAINS REGIONAL AUTHORITY (NGPA) (U.S. DEPARTMENT OF AGRICULTURE)

There are certain regions of the country where distressed communities struggle with poverty, unemployment and an overall lack of economic growth. Just as countries establish trading blocks, there are states and regions that join together to address common economic interests. The Northern Great Plains Regional Authority (NGPA) was designed to help communities in Iowa, Minnesota, Nebraska, North Dakota and South Dakota improve their basic transportation and telecommunication infrastructures, and provide business development and job training at the local level. Authorized at $30 million per year, it would provide grants to states, public and nonprofit entities for business development and entrepreneurship, job training, support for local development districts, enhancing local private investment, and setting regional economic development priorities. Like the Delta Regional Authority (DRA) and the Appalachian Regional Commission (ARC), this program would provide much-needed economic assistance and business development opportunities to rural, distressed communities by funding regional, state and local initiatives. Unfortunately, the president's budget provides minimal funding authority for this program that would play a vital role in the economic renewal of the Great Plains region and would have provided countless entrepreneurs with access to business development services.

Renewable Energy Systems and Energy Efficiency Improvements Program (RES and EEI) (U.S. Department of Agriculture)

It is our rural small business owners, ranchers and farmers who are a critical component to renewable energy development in America. And it is through capital investment in the conversion of our natural resources into new energy sources that the U.S. is able to achieve greater energy self-sufficiency and efficiency. The goal of the Renewable Energy Systems and Energy Efficiency Improvements (RES and EEI) program is to provide loans and grants to small businesses in rural areas and agricultural producers to reduce energy costs and consumption in an effort to better meet the energy needs of our nation. Projects include those that secure energy from wind, solar or geothermal energy sources, and span states in all geographic regions of the country. In 2003, these USDA grants funded over $2 million worth of projects in Illinois, $1.7 million in Wisconsin, $4.6 million in Minnesota, and another $1.2 million in Iowa. Most of the projects for FY 2004 were in support of wind projects, including farmer owned utility-scale turbines, small residential scale turbines, and rural electric cooperative wind projects. This year the administration's budget proposal for RES and EEI is just $11 million, cutting the program in half. By reducing funding for these energy programs tapped by small enterprise, this administration is shortchanging the ability of these firms to develop renewable energy sources in our rural communities and keep energy costs from having a damaging effect on their bottom lines.

Rural Business Enterprise Grants Program (RBEG) (U.S. Department of Agriculture)

Many rural communities in the U.S. typically have higher rates of unemployment than the national average, and a main source of jobs is the small business sector. The U.S. Department of Agriculture's Rural Business Enterprise Grants (RBEG) program reaches out to local businesses and cooperatives in rural communities to help preserve and develop new job opportunities. Under the program, RBEG funds are awarded to eligible organizations to finance the development of small and emerging firms with less than 50 new employees and less than $1 million in gross annual revenue. These grants can be used for a variety of purposes relating to small businesses including the development of land, construction of buildings for an incubator or small company, technical assistance such as marketing and feasibility studies, business plans or training, start-up operating costs and working capital, and the development of distance learning networks. In FY 2003, this program provided more than 515 grants in all 50 states totaling more than $51 million in rural small business development assistance. This program is especially important today as many companies that formerly looked to rural communities to meet their low-wage labor needs are now moving these same jobs offshore. Although the program has supported small business growth and job creation across the nation, the Bush administration has cut the RBEG program by $2.4 million in its FY 05 budget submission. Given that such sources of federal financing can contribute to lowering unemployment and counteract job flight due to small business creation, the failure of the Bush administration to adequately fund RBEG will cause hardship in rural communities everywhere.

RURAL COMMUNITY DEVELOPMENT INITIATIVE (RCDI) (U.S. DEPARTMENT OF AGRICULTURE)

There are many distinctive assets in rural communities that lend themselves to economic development. Additionally, rural and agricultural communities have higher rates of self-employment, increasing the opportunity for entrepreneurial activities. However, there are also challenges to promoting small business growth in rural areas, such as lower wages, the cyclical nature of seasonal work, and the lack of basic infrastructure. To help overcome these barriers, the Rural Community Development Initiative (RCDI) was created to provide grants to organizations and low-income communities located in rural areas with populations of 50,000 or less. These grants, ranging from $50,000 to $500,000, are a way to help bring about rural economic development. By providing technical assistance in the form of support to microenterprises, cooperatives and sustainable development, the RCDI allows communities to undertake projects that encourage entrepreneurship at the local level. It is through such microenteprise development that these areas are able to create and sustain jobs, leading to overall economic expansion. In some farm and ranch counties, it is said that some 70 percent of net job growth comes from people creating their own jobs. In fact, small entrepreneurship in rural areas, supported by the RCDI, has been proven to work in agricultural areas that have been unable to attract manufacturing or other large employers. This initiative was funded at $6 million in FY 2004, yet the Bush administration's latest budget proposal does not request any money for RCDI. This will ultimately cause a gap in much-needed technical assistance to small businesses and microentrepreneurs in our nation's most distressed rural communities, causing them to remain on the fringes of economic expansion and renewal.

RURAL HOUSING AND ECONOMIC DEVELOPMENT (RHED) PROGRAM (U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT)

The need for capacity building in rural communities is strong as they struggle to provide economic opportunities to local residents. Created in 1999, the Rural Housing and Economic Development (RHED) program focuses on helping rural areas support innovative economic development activities through federal grants. Funds can be used for economic activities, which include the acquisition of land and buildings, job training, financial assistance to businesses, and the establishment of loan funds, lines of credit, microenterprises and small business incubators. Each year since its start, the program has awarded grant funding to approximately 100 organizations across the U.S. In FY 2003, approximately 80 grants were made to rural non-profits, community development corporations (CDCs), economic development agencies, and state housing finance agencies (HFAs) in 32 states and Puerto Rico for a total of $25 million. This year, the Bush budget proposal eliminates funding for this popular program, leaving many rural entrepreneurs and job seekers without the assistance they require to help spur economic growth in their communities.

VALUE-ADDED GRANTS (U.S. DEPARTMENT OF AGRICULTURE)

For our local economies that depend on agriculture, one way for businesses in these areas to grow is to develop new products and markets for these products. Value-added grants at the U.S. Department of Agriculture promote activities that will help to improve the customer base for the commodity or product, helping the producer to keep a greater portion of the revenue. Such activities could include changing the physical state of a product, using an agricultural product for renewable energy on farms or ranches, and making and marketing a product that enhances its value, such as being organically-produced. These grants of up to $500,000 can take two forms – working capital grants or planning grants – and are awarded to independent producers, farmer and rancher cooperatives, agricultural producer groups and producer-based business ventures. Planning grants allow producers to examine the feasibility of a value-added project while working capital grants fund the actual implementation of a value-added initiative. Small agricultural-based businesses have used value-added grants as working capital for the operation of their plants, to conduct feasibility studies and business plans, and to package, market, and survey new products lines. While these grants can help small firms add value to their products, expand their operations, and hire new employees, the Bush administration has proposed to cut the program below its previous levels. By slashing this program by more than half, many small companies focused on staying competitive in the agricultural marketplace will find this federal assistance no longer exists to help them maintain an edge.

TECHNOLOGY

ADVANCED TECHNOLOGY PROGRAM (ATP) (U.S. DEPARTMENT OF COMMERCE)

Small businesses are this nation's leaders of new ideas, generating five times the innovation per dollar of investment when compared to large companies. In an effort to support this leadership, the Advanced Technology Program (ATP) works to bridge the gap between the research lab and the marketplace, stimulating prosperity through innovation. This unique government-industry partnership stimulates the U.S. economy by accelerating the development of emerging or enabling technologies for the creation of revolutionary new products, industrial processes and services that can compete in today's rapidly changing world markets. ATP challenges industries to take on higher-risk projects with commensurately higher potential payoff and provides multi-year funding to single companies and industry-led joint ventures. To date, approximately 65 percent of these awards have gone to small businesses or joint ventures led by a small business. ATP award winners have included many small start-up companies, and can mean the difference between their success and failure. ATP projects in small firms have led to radical new designs in the semiconductor industry, and new techniques in the pharmaceutical and chemical industries. Even though the ATP program scored high in planning, management and accountability in an Office of Management and Budget (OMB) analysis of government programs, the White House requests no funding for ATP in the FY 2005 budget. By doing this, many small companies will lack the financial support they need to develop and grow new ideas, which leads to the global competitiveness of our nation's economy.

Community Technology Centers (CTC) Program (U.S. Department of Education)

Access to technology, including a Web site and interactive e-commerce, is key to small business growth in this country. These tools give entrepreneurs a way to enhance their products and services, access new markets at a low cost, and compete with larger operations. Yet those entrepreneurs living in underserved urban and rural communities often find it difficult to gain access to the technology they need for their business ventures. The U.S. Department of Education's Community Technology Centers (CTCs) program is able to help bridge the digital divide by demonstrating the educational and economical benefits of technology. While the CTC program exists to provide more access to technology in distressed communities, it also serves as a building block for technological advancement and training in these areas. As the Community Technology Centers take root in neighborhoods across the country, entrepreneurs are able to learn the technological skills for starting-up and developing a small business. By helping to provide computer access to many who simply do not have it at their fingertips, CTCs serve a vital purpose in helping bring areas and the businesses that lend economic support into the 21st century. The funding for CTCs in 2004 is $10 million, yet the Bush budget proposal requests no funding in FY 2005. By failing to fund a program that supplies information technology tools and training to local businesses, this administration is undermining the potential, competitiveness, and profitability of these firms in the future.

National Telecommunications and Information Administration (NTIA) (U.S. Department of Commerce)

Affordable access to telecommunications is a basic necessity in all sectors of our economy, including the growing small business sector. As more and more small businesses take advantage of electronic commerce, the National Telecommunications and Information Administration (NTIA) provides the vital support they need by resolving privacy, content regulation, copyright protection, taxation and other technology-related issues. NTIA works to spur innovation, encourage competition, and create jobs while providing consumers with more choices and better quality telecommunications products and services at lower prices. Small businesses are increasingly taking advantage of technology and support services such as personal computers, fax machines, laser printers, Internet access, scanners, cell phones, and other telecommunication services, which provide powerful and inexpensive ways to work independently, yet stay connected to the world from a home office or small company. The common availability of sophisticated technology that was previously only affordable in a corporate environment has leveled the playing field between big and small firms. In 2000, small businesses spent approximately $88 billion for telecom products, enhanced services, and Internet access and that figure will likely increase to upwards of $120 billion by 2005. In the administration's budget proposal, funding to NTIA has been cut by half from $51 million to a request of just $25 million. With the severe underfunding of NTIA, our nation's entrepreneurs will undoubtedly find it hard to continue to thrive and grow their businesses using technology.

RURAL UTILITIES SERVICE (RUS) BROADBAND LOAN PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)

The deployment of broadband services, or high-speed Internet, in small rural towns is far less than in large cities and urban areas across the nation. Lack of broadband can be especially acute for small businesses since the Internet is becoming a major avenue of commercial activity. In fact, in a recent survey of small businesses, the majority of DSL subscribers said the productivity benefits of their services exceeded their expectations. In an effort to give small firms more readily available and affordable access to broadband services, the U.S. Department of Agriculture's Rural Utilities Service (RUS) broadband loan program was created and is the only federal initiative designed to encourage broadband investment in our nation's rural communities. The minimum loan amount is $100,000 and can be used for the improvement, construction, or acquisition of equipment to provide broadband services. In 2003, a total amount of $1.3 billion in loans was made available through this program. By attempting to bridge the digital divide in this country, especially for small businesses in rural areas of the U.S., the RUS broadband loan program gives small companies access to important technology to better compete in the 21st century. This program is critical today as the U.S. continues to lag behind other technologically-saavy countries, including those in Asia and Europe. The cut of almost 50 percent in the authorization level for broadband loans leaves small firms in our rural communities behind, and ultimately hinders their ability to have the technology they need to grow, hire workers, and promote economic development at the local level.

RURAL UTILITIES SERVICE (RUS) ELECTRIC LOAN PROGRAM (U.S. DEPARTMENT OF AGRICULTURE)

In the U.S., many rural communities face the challenges of high energy costs and unreliable service. Since small businesses constitute a majority of energy consumption, such energy problems make it very difficult for them to compete with more centrally-located competitors. The USDA's Rural Utilities Service (RUS) electric loan program provides an affordable, reliable energy source to some of our nation's most isolated rural communities. Since the program's inception in 1936, RUS has enabled many rural businesses and residents to access energy and electric service by providing loans and loan guarantees to finance the construction of generation and transmission facilities, upgrades to existing systems, and for energy conservation programs. RUS also provides financial assistance to rural communities that are experiencing high energy costs to construct, extend and improve their energy distribution and transmission capabilities. Today, RUS has approximately 686 active electric borrowers from 47 different states. In fact, the yields from investment in energy are worthwhile, with the USDA Economic Research Service (ERS) estimating that more than two dozen jobs are created with every $1 million in federal investment in electric. Unfortunately, the president's FY 05 budget will result in an almost 50 percent cut in last year's loan levels, leaving many small businesses in rural parts of the country without access to an affordable source of energy that is so critical to running their businesses.

SMALL BUSINESS INNOVATION RESEARCH (SBIR) PROGRAM (U.S. SMALL BUSINESS ADMINISTRATION)

Small businesses account for more than 55 percent of all innovations in this country, yet it is often cost-prohibitive for them to participate in research and development (R&D) efforts. The SBA's Small Business Innovation Research (SBIR) program is a highly competitive initiative that encourages small business participation in the area of government research. Federal agencies administer the SBIR program, allowing small businesses to assist in conducting innovative research for commercialization or public benefit. The SBIR program helps to fund the critical start up and development stages, and then encourages the commercialization of the product or service. The goals of the SBIR program include using small firms to stimulate technological innovation, strengthening the role of small businesses in meeting federal R&D needs, and fostering participation of rural, low-income and women-owned small businesses in federal R&D initiatives. Currently there are eleven government agencies participating in the program, including the Department of Defense (DOD), the Department of Energy (DOE), The Department of Homeland Security (DHS) and the National Aeronautics and Space Administration (NASA). Since the start of the SBIR program, more than $12 billion has been awarded to various small businesses. After being severely underfunded in the past, next year's budget request by this administration cuts funding altogether within the SBIR program to provide outreach to small businesses in low-income and rural areas of the nation. Such a move will lead to a concentration of SBIR awards to small firms in certain geographic areas, precluding worthy and capable companies in economically-distressed parts of the country from fully developing their R&D potential.

TECHNOLOGY OPPORTUNITIES PROGRAM (TOP) (U.S. DEPARTMENT OF COMMERCE)

Technology and digital networks can support learning for all Americans, achieve public safety goals, and ensure health services and economic development reach rural and urban communities. The U.S. Department of Commerce's Technology Opportunities Program (TOP) seeks to promote the innovative use of digital network technology in both the private and public sectors by providing matching grants to state, local and tribal governments, schools, libraries, police departments, health care and other community-based organizations. A component of TOP is using the application of digital networks to support economic development in areas by connecting entrepreneurs with small business assistance. Since small businesses require extra support, have thin profit margins, and lack a safety net, TOP can bridge this assistance gap electronically, creating an extensive support network online. To date, TOP has awarded approximately 555 grants in every state, Puerto Rico, the District of Columbia, and the Virgin Islands, totaling almost $205 million and garnering $282 million in local matching funds. Since TOP projects serve as models for communities across the country, these initiatives are beneficial not only to the area in which they occur, but also to other areas in the nation overall. In the FY 05 budget proposal, the Bush administration terminates funding for TOP. Since this grant funding will no longer be available, many small businesses will be unable to take advantage of different technological tools for economic development provided by TOP projects.

Overview of the Bush Administration's FY 2005 Tax Plan

As with the last three budgets, the FY 2005 budget submitted by President Bush includes a number of tax proposals. The bulk of the tax cuts in the submission are an extension of previous tax bills that were passed in 2001 and 2003. Some of the measures in these bills are set to expire over the next five years with the bulk of them expiring after 2011. Although the budget provides for a five-year outlook period to determine the budgetary impact, the costs of making these cuts permanent will have the most profound effect on budget deficits in the latter part of the next ten years.

In terms of targeted tax relief for this nation's entrepreneurs, the budget package includes a permanent extension of the increased expensing that allows small businesses to immediately expense the purchase of new equipment up to $100,000 in a year. Noticeably absent in terms of small business relief is the extension of bonus depreciation that promotes immediate investment, as well as adequately addressing the Alternative Minimum Tax (AMT), to which many small business owners will be subject in the next decade. There is also a lack of basic simplification provisions designed to encourage small business growth.

Instead, the bulk of the costs of the tax cuts in the administration's FY 2005 budget are found in the permanent extension of the marginal rate cuts and the dividend and capital gains rates cuts that were part of the 2003 Jobs and Growth Package. A close analysis of the tax measures reveals that the failure to provide more targeted tax cuts for small businesses while expanding the budget deficit will have a dampening effect on job growth in the small business sector. Using figures from the U.S. Department of the Treasury and other government agencies, the average small business received less than $500 with the rate cuts. The recent job creation numbers suggest that an extension of these measures will provide little stimulus.

Given the projected $500 billion budget deficit in the coming year and the drag it will have on the economy, Congress and the Bush administration need to prioritize any additional tax relief measures to ensure that they will encourage this country's businesses to start hiring employees while not inhibiting future growth. Economists have noted that while tax cuts can provide a short-term fiscal stimulus, increased deficits can have a negative impact on long-term economic growth through increased interest rates.

The Center on Budget and Policy Priorities notes that making the tax cuts permanent would cost approximately $2.5 trillion over the first decade (2005-2014), including the higher interest payments that would have to be made on the national debt. Moreover, making the tax cuts permanent would cost more than twice that amount in the second decade (2015-2024). Tax measures used effectively must encourage expansion and hiring without having such a high cost which will cause a secondary lag on the economy.

TAX PROVISIONS INCLUDED IN THE FY 2005 BUDGET FAIL TO PROVIDE INCENTIVES FOR SMALL BUSINESS INVESTMENT

The centerpiece of the FY 2005 budget proposal is making the marginal rate cuts that were part of 2001 and 2003 tax packages permanent. Proponents of these measures have argued that the best way to target small businesses is through these rate cuts by claiming most small business owners pay the top marginal rate – where the bulk of the benefit of these rate cuts is found. In fact, less than three percent of small businesses pay in the top tax bracket. The effects of these individual rate cuts on providing incentives for small business investment is overstated and their extension will likely have little stimulating effect. According to the Center for Budget Priority and Policies, nearly a third of the nation's 23 million small businesses received less than $100 with the rate reductions.

The administration's budget package also provides for permanent extension of the dividend and capital gains tax cuts which are set to expire in 2008. This extension will have minimal impact on small businesses that are typically organized as S Chapter Corporations, partnerships, and sole proprietorships and could actually harm them. These tax cuts that were included as part of the 2003 Jobs and Growth Package and their extension can have a negative impact on the competitiveness of small firms since investment will instead flow to large corporations, organized as C Corporations, which are eligible to take advantage of the cuts in dividend taxes.

Given these realities, it is hard to imagine that making the cuts permanent would provide a stimulus to the small business sector of the economy. This is especially disconcerting due to the enormous impact such a move will have on the budget deficit over the next decade. According to the Congressional Budget Office (CBO), if the cuts were made permanent, the future budget deficits could lead to a $2.75 trillion deficit over the next ten years. This would inevitably lead to higher interest rates leaving small businesses, which are already finding it difficult to access capital, with few and more costly alternatives.

LOOMING ISSUE FOR SMALL BUSINESSES: ALTERNATIVE MINIMUM TAX

Unfortunately, this budget submission focuses on making the dividend and capital gains and marginal rate cuts permanent, and does not adequately address the largest issue that small businesses are going to face over the next decade – the Alternative Minimum Tax (AMT). The AMT is already a huge issue, but the extension of marginal rate reductions is only going to exacerbate it. Any gains or savings predicted by individual rate cuts are going to be offset by the increasing class of small business owners who will be subject to the AMT. Rather than adequately addressing the issue, the FY 2005 budget provides for only one year of minimal AMT relief.

The AMT was originally designed to prevent millionaires from avoiding income taxes altogether. It is calculated by eliminating a number of specific deductions taxpayers can use in determining their federal income tax, instead providing a large standard deduction and eliminating certain deductions in determining the AMT. The taxpayer then pays the higher of the two calculations. Due to inflation and lack of legislative action, millions of middle income Americans – many of them small business owners – are going to become ensnarled by the effects of this tax. While approximately two million individuals are now subject to the AMT, this number could reach 35 million by 2010, according to the nonpartisan Urban Institute.

Unfortunately for millions of small business owners who are taking advantage of tax deductions designed to encourage investment, they are going to find that the AMT will curb their tax savings. As the Small Business Administration (SBA) Office of Advocacy Chief Tom Sullivan has noted, "[F]or small proprietors, partners, and S Corporation shareholders, the individual AMT increases their liability on their business earnings by limiting use of depreciation and depletion deductions, net operating loss write-offs, deductibility of state and local taxes, and expensing of research and experimentation costs." On top of their increased tax compliance costs, small businesses are going to find that the AMT reduces their incentive to re-invest in their business.

Failing to address the AMT could also mean less investment in small businesses. The tax code contains incentives in the form of tax deductions for investors to provide equity funding to small firms that are deemed Special Small Business Corporations under Section 1202. Under the AMT, this deduction does not exist. As tax preparers are feverishly setting up tax schemes for their clients to avoid the AMT, millions of dollars that would normally be invested in small businesses will be moved to tax shelters that are not subject to this tax. Monies designated for small business investment will most likely be shifted to other sectors of the economy, including those large corporations benefiting from the dividend tax cut.

TAX SIMPLIFICATION FOR SMALL BUSINESSES

The Bush administration's FY 2005 budget proposal also makes no efforts to simplify the tax process for small business owners. Many of these provisions would add little cost to the deficit but are critical to millions of small firms. The biggest problem for many small businesses is that the tax code is designed to meet the needs of large corporations. This one-size-fits-all approach taken by the IRS is a major reason why a recent study sponsored by the SBA's Office of Advocacy discovered tax compliance costs for businesses with fewer than 20 employees was about two times higher than larger companies.

The most noticeably absent provision from the administration's budget is the extension of bonus depreciation. As with the increased expensing, bonus depreciation encourages small business owners to make investments in their ventures immediately by allowing businesses to expense 50 percent of the cost of qualified purchases and, at the same time, simplifies the way they do their taxes. It was included in the 2003 tax bill and should be extended.

The budget also does nothing to simplify the pension and retirement rules for small business owners who offer coverage to their employees. Instead, President Bush has proposed a savings accounts plan that will encourage small business owners to drop retirement plans. If the goal is to increase the national savings rate, there must be a policy in place that puts small businesses on a level playing field with large corporations, and allows all workers to take advantage of pension coverage in the same way as their corporate competitors.

The tax plan provides no relief for the increasing number of self-employed in this country. As many Americans are finding their jobs outsourced overseas, the United States has seen an expansion in the number of the unemployed. Many of these individuals are looking for new opportunities and have joined the ranks of the self-employed. Unfortunately, the budget fails to provide assistance in terms of tax relief or simplification. Low cost proposals such as a standard home deduction, increase in the meals and entertainment deductions, and changing the way the self-employed can deduct health care costs could offer tremendous benefits.

PROVIDING TARGETED AFFORDABLE TAX RELIEF TO SMALL BUSINESSES

It is clear that if there is any hope of balancing the budget in the next decade, the AMT, marginal rate, dividend and capital gains tax cuts and tax simplification cannot all be enacted. It comes down to a matter of priorities. Given that targeted tax cuts such as bonus depreciation and tax simplification can provide the greatest "bang for the buck," Congress should take advantage of these policy tools to create jobs.

If the argument is made that individual rate cuts are the way to target small businesses, logic suggests the AMT must be addressed. It is this reason that the National Taxpayer Advocate head Nina Olson has called the AMT issue a "time bomb." Sadly, the cost of making the marginal rate cuts permanent would make repealing the AMT to be prohibitively expensive. Considering that the AMT will hit small business owners and this nation's middle class the hardest, it should be a priority over the extension of marginal rate cuts. While the fix is expensive, the failure to correct the AMT problem in favor of marginal rate cuts could grind small business investment and growth to a halt.

Providing targeted tax relief for small businesses could provide the necessary investment to get the job creator of this economy – small businesses – back on track. The tax code is one of the most effective fiscal tools that the federal government has in creating investment in all sectors of the economy. It can shape the way capital flows, and it must be used to create outcomes with the greatest positive effect on the overall economy.

CONCLUSION

A federal budget submission provides the blueprint for an administration's economic policies. By outlining fiscal priorities, it is their vision for how the U.S. economy should grow and expand. For this reason, Americans should be extremely worried about the economic policies contained in President Bush's FY 2005 budget submission.

Rather than abandoning policies that have failed to create jobs and have instead amassed an enormous federal budget deficit, it continues on a path that makes it harder to sustain an economic recovery. Instead of prioritizing programs and policies to create new businesses and the jobs that come with them, the administration has chosen to eliminate or reduce programs focused on encouraging and supporting entrepreneurship. The budget requests deep cuts in federal programs designed to spur economic growth, while at the same time increasing the budget deficit through an extension of tax cuts that have simply not encouraged business expansion.

While recognizing the need for fiscal constraint given the current budget deficit, the calculated efforts by the Bush administration to cut spending for small business programs are concerning. An average cut of 72 percent to these programs is far too high a price to pay for our nation's entrepreneurs in the name of deficit reduction. The federal budget deficit is not a result of the minimal costs associated with these programs, but in spite of them. OMB studies have found that many of these programs have created from $1 to $5 in additional federal revenue for every $1 spent. If the ultimate concern is the effect of budget deficits, these programs have paid for themselves by increasing federal tax revenues.

The $500 billion deficit has developed as a product of a number of economic forces, but has been primarily driven by the loss in federal revenues related to the tax cuts passed in 2001 and 2003 and the failure of these measures to generate tax revenues. The tax cuts simply have not created the predicted growth in the last three years and the expansion of these tax policies, as proposed in the budget, will lead to similar results – rising deficits and weak job growth.

Instead of spending more on unproductive tax cuts, money would be better spent on the programs the budget proposes to cut. By doing this, the administration can create new jobs, while at the same time reducing the budget deficit through increased tax revenues. These programs spur growth, causing businesses to hire new workers, which ultimately broadens the tax base.

The Bush administration's FY 2005 budget lacks the resolve and vision that should accompany such an important proposal. Given the clear failure of Bush's tax cuts to spur economic growth, the administration is either too naive in its belief that such policies will eventually work or too obstinate to admit that its policies have failed.

Instead of changing course and offering a balanced proposal that incorporates targeted tax relief as well as adequate funding for programs that spur economic growth, the administration continues to rely on an approach that has a great probability of leading to economic stagnation. Without a reordering of the administration's budget priorities, the livelihood of American consumers, workers, and business owners will be in jeopardy.

Federal Program	FY 2005 Request	Amount Cut	Percentage Cut
7(a) Loan Program	$0	$94,000,000	100%
Advanced Technology Program (ATP)	$0	$171,000,000	100%
Brownfields Economic Development Initiative (BEDI)	$0	$25,000,000	100%
Business Information Centers (BICs)	$0	$400,000	100%
BusinessLINC	$0	$6,600,000	100%
Community Development Block Grant (CDBG) Program	$4,331,000,000	$25,000,000	1%
Community Development Financial Institutions Program (CDFI)	$48,000,000	$3,000,000	6%
Community Development Loan Guarantees (Section 108)	$0	$7,000,000	100%
Community Technology Centers (CTC) Program	$0	$10,000,000	100%
Delta Regional Authority (DRA)	$2,100,000	$2,900,000	58%
Economic Development Administration (EDA)	$320,300,000	$44,104,000	12%
Economic Development Initiative (EDI)	$0	$278,000,000	100%
Empowerment Zones (EZs)	$0	$15,000,000	100%
Living Cities: The National Development Initiative (NCDI)	$25,000,000	$5,000,000	17%
Manufacturing Extension Program (MEP)	$39,200,000	$66,800,000	63%
Microloan Program	$0	$17,000,000	100%
Migrant and Seasonal Farmworker Programs	$0	$77,000,000	100%
National Telecommunication and Information Administration (NTIA)	$25,000,000	$26,600,000	52%
New Market Venture Capital Program (NMVC)	$0	$52,000,000	100%
Northern Great Plains Regional Authority (NGPA)	$0	$3,000,000	100%
Occupational and Employment Information State Grants	$0	$9,000,000	100%
Office of Regulatory Analysis	$0	$5,200,000	100%
One-Stop Career Centers	$101,000,000	$12,000,000	11%
PRIME (Program for Investment in Microentreprenuers)	$0	$5,000,000	100%
Procurement Center Representatives Program (PCRs)	$19,217,000	$517,000	3%
Projects with Industry (PWI)	$0	$22,000,000	100%
Renewable Energy Systems and Energy Efficiency Improvements Program	$11,000,000	$12,000,000	52%
Rural Business Enterprise Grants Program (RBEG)	$40,000,000	$2,400,000	6%
Rural Community Development Initiative (RCDI)	$0	$5,900,000	100%
Rural Housing and Economic Development (RHED)	$0	$25,000,000	100%
Rural Utility Service (RUS) Broadband Loan Program	$331,100,000	$267,000,000	45%
Rural Utilities Service (RUS) Electric Loan Program	$2,740,000,000	$2,350,000,000	46%
Small Business Innovation Research (SBIR) Program	$0	$10,000,000	100%
Technology Opportunities Program (TOP)	$0	$14,000,000	100%
U.S. Export Assistance Centers (USEACs)	$0	$3,100,000	100%
Value-Added Grants	$16,000,000	$24,000,000	60%